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STATISTICAL REFERENCE INDEX
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TODAY

NEWSMONDAY

WEEKLY REVIEW AND OUTLOOK — Pull Out Section Starting on Page 9

INSIGHT: The problem of nonperforming loans is proving more sticky than bankers had anticipated, if second-quarter results are any indication. Several of the nation's largest holding companies, after showing stability in credit quality in recent quarters, boosted second-quarter loan-loss provisions enough to cause earnings declines from 1985 second-quarter and 1986 first-quarter results... 9

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WASHINGTONMONDAY

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: CHALLENGING ST GERMAIN: Signs that House Banking Committee Chairman Fernand St Germain is devoting more resources and attention to his reelection campaign this year are heartening to Republicans, who say the Rhode Island congressman is one of the two or three most vulnerable Democrats in the nation... ... 11

Washington Monday

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CAPITAL PEOPLE: As anticipated, President Reagan will nominate Michael Mussa to be a member of the Council of Economic Advisers, succeeding William Poole..... 10

BANKING TRENDS: Dr. Paul S. Nadler says that in several ways, the U.S. balance of payments deficit has really been a blessing in disguise for the economy... 4

ATM SECURITY BILL: A bill introduced in the House last week would set federal guidelines for protecting automated teller machine customers... 3

SUIT SETTLED: Continental Illinois National Bank and Trust Company of Chicago put one more aspect of its involvement with the defunct Penn Square Bank behind it Friday when a federal judge approved the settlement of a lawsuit arising from the collapse... 3

THRIFT PROFITS UP: Two large California thrifts reported higher earnings last week, with both institutions reporting sharp increases in loan volume... 3

BACK PAGE: Acorn's protest at the Washington headquarters of the American Bankers Association last week was just the latest move by the national activist group in a campaign to make banks more responsive to community needs... 24

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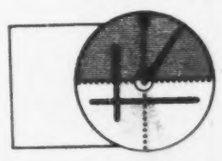
Bankers Trust's Very Profitable Hidden Asset

ProfitCo Unit Will Bring in 40% of Banking Firm's Noninterest Income This Year

By TOM FERRIS

NEW YORK — Eight years ago, mired among the industry's poor performers, the Bankers Trust Co. took a bold gamble and began transforming itself into an investment banking giant. Radical though it was, the move now is regarded widely as a masterstroke that catapulted Bankers Trust into the ranks of the elite.



Corporate Strategy

However, while earnings relative to its peers have been outstanding, the enthusiasm of investors has been tempered somewhat by the source of those profits. The cyclical nature of corporate finance income is one worry, as is the risk involved in the volatile, high-stakes environment of Wall Street.

To counteract this, the bank looked for additional lines of business that would produce steady, reliable, and low-risk earnings. What was needed, said David K. Sias Jr., an executive vice president of the bank, was "an annuity business which is large enough in absolute terms to not only smooth out the peaks and valleys, but also to make a meaningful contribution to the bottom line."

The bank's management settled on a variety of fee-based transactional and informational services that would be sold to corporations, organizations, government entities, and wealthy individuals. A separate unit, dubbed ProfitCo, was set up 18 months ago to market these investment, trust, cash-management, and securities-processing products. In a key part of the unusual strategy, the unit was given virtual independence from the bank — with separate data processing systems and salesmen — and a mandate that each product segment be profitable on a stand-alone basis.

ProfitCo: Page 22 ➤

Wriston Says Business of Banking Still Is Information

By NINA EASTON

NEW YORK — Walter B. Wriston likes what he "reads in the paper" about Citicorp — as he carefully phrases it.

After years of standing at podiums to espouse his vision that banks will face fierce competition from those companies with extensive information networks, Citicorp — the bank that Mr. Wriston led overseas and into the electronic age — has purchased Quotron Systems, Inc., a Los Angeles company that provides stock quotes and other financial information electronically.

"It seems to me to be a terrific idea," Mr. Wriston says. "I think the strategy those fellows have devised is terrific." He adds, "I have no doubt they'll be in the insurance business in a very big way."

"Those fellows" is a reference to the team at Citicorp led by Mr. Wriston's hand-picked successor, John S. Reed. In his comments about Citicorp during a recent interview, Mr. Wriston made clear that he is anxious not to appear to be meddling in the top management's plans for the bank.

During Mr. Wriston's 17-year reign at Citicorp, assets grew from $17.5 billion to $150.6 billion. The bank broke through geographic boundaries and moved into an array of new products, including investment banking and insurance. Along the way, the bank gained a reputation for being brash, arrogant — and enviably innovative.

Mr. Wriston, who turns 67 on Aug. 3, retired as Citicorp chairman and chief executive in September 1984. He has since worked out of a modest — though tightly secured — fourth-floor office at Citicorp Center in midtown Manhattan. He shares a suite, dotted with artifacts from world travels, with William I. Spencer, who retired as president of Citicorp in 1982.

If Mr. Wriston's small, cluttered office gives the impression that he has come down in the world, the photos on the wall are a jolting reminder of his international stature. He poses with President and Mrs. Reagan, with the Carters, with Richard Nixon. He sits in a meeting with then-President Gerald Ford to discuss the financial crisis facing New York City. He shakes hands with the now deposed Philippines President Ferdinand E. Marcos and his wife, Imelda.

Since leaving Citicorp, Mr. Wriston has chaired President Reagan's Economic Advisory Policy Board, a group of industry leaders who advise the President. He also has published a compendium of his writings and speeches, "Risk & Other Four-Letter Words," that reveals more about his own political conservatism and relentless optimism than it does about the Citicorp strategy that has provoked so much interest and controversy.

While the book's publisher, Harper & Row, won't release sales

Wriston: Page 2 ➤

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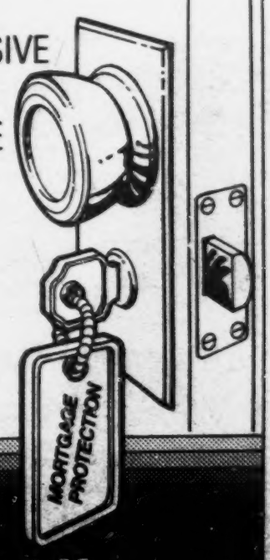

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Letters to the Editor

Interstate Disputes Swap Rankings

To the Editor:

As the *American Banker* is usually a reliable source of information, we at First Interstate Bank Ltd. were somewhat surprised by your front page report ["Banks Outstrip Wall Street in Swap Market," July 15] on how the top banks rank in interest rate swaps.

THE NEW INVESTMENT BANKERS

Recently, we compiled data that is available in the Federal Reserve call reports on the notional principal dollar amounts outstanding as of Dec. 31, 1985, for the top 15 banks in the United States and found that First Interstate Bank of California ranked ninth, ahead of a number of banks with larger deposit bases.

Also, when transactions booked by subsidiaries of First Interstate Bancorp are included, First Interstate ranks seventh overall. In 1985, First Interstate booked some $5.8 billion in notional principal of swaps on 342 transactions, numbers that do not include a number of currency swap transactions done by our London merchant bank or transactions that it brokered and did not take on to its books.

First Interstate has been active in the swaps market since 1982 and currently has a team of some 20 professionals operating out of London, New York, Los Angeles, Tokyo, and Chicago. We are a member of the International Swap Dealers Association, and Allan Wilson, a cochairman of our London merchant bank and one of the creators of the swap product, is chairman of International Swap Dealers Association in London.

Besides quantity, however, quality is also important. As you noted in your accompanying article on profitability, the market for "plain vanilla" swaps has become a commodity market. The real value added, both for customers and for the bottom line of a swap department, comes from arranging complex swaps that meet specific asset or liability needs.

It is in this area that swaps come to the fore as a corporate finance tool as opposed to a traded commodity. First Interstate has been and continues to be active in swapping complex cash flows to solve clients' problems. It has completed zero coupon structures, amortizing transactions, forward/forward swaps, and transactions in such indexes as commercial paper, Treasury bills, and prime, not to mention currency transactions.

Notional Value of Outstanding Swaps at Biggest US Banks

Market Share Rank		Notional Value As of 12/85 ($ in thousands)
1	Citibank	$33,380,000
2	Bankers Trust Co.	23,541,000
3	Chase Manhattan Bank	23,541,000
4	Manufacturers Hanover	22,413,601
5	Morgan Guaranty Trust	21,450,000
6	Chemical Bank	16,051,133
7	First Interstate Bancorp*	9,036,000
8	First Chicago	8,458,000
9	Bank of America	7,367,000
10	First Interstate Bank of Cal.	7,176,760
11	Continental Illinois	3,322,362
12	Marine Midland Bank	3,154,600
13	Mellon Bank	2,440,046
14	First National Bank of Boston	1,482,270
15	Security Pacific	1,328,598
16	Wells Fargo Bank	220,000

List was compiled by First Interstate Bank, based on disclosures in Federal Reserve call reports. *Figures for the holding company include volume for First Interstate Bank of California.

A transaction that typifies our expertise is the swap we completed last year for the Times Mirror Co., which fixed the rate on a nine and a half year, tax-spared, prime-based funding with annual amortizations.

It seems obvious to us that ability among banks in corporate finance and especially in swaps is not tied directly to a deposit base, and we would hope that you would recognize this in the future.

Douglas Metcalf
Senior Vice President
and Managing Director
First Interstate Bank Ltd.
Los Angeles

Consumers Also Must Understand Check Hold Policy

To the Editor:

In your May 29, 1986, issue, [page 4] Michael Urkowitz attempted to "clear the fog" surrounding check hold policies. In fact, he fell into the usual banker's trap: He failed to appreciate the problem as seen by the consumer.

It makes no difference to the consumer whether the check is cleared or collected. The disparity between the two words is one of semantics to the public. What the public and Congress understand is that the bank receives payment for perfectly good checks well before access is granted. The consumer does not care that balance credit begins or that savings account interest is paid. Besides, when the savings rate was 5.25% and the funds rate 15%, that argument was useless.

Mr. Urkowitz is perfectly on target when he talks about productive understanding, but that understanding must begin with the people who are trying to explain the problem to the public. The understanding should start with a perception of what the public thinks and stop looking at explanations from the banker's technical point of view. There is a perception of a problem; therefore, there is a problem. The operating stream must be shortened and the public enlightened. Unfortunately, the former probably will happen before the latter.

John H. Burd
Chief Operating Officer
Financial Options Group

The Financial Options Group is a Philadelphia brokerage firm. Mr. Burd was formerly a vice president in charge of money management at the Girard Bank, Philadelphia.

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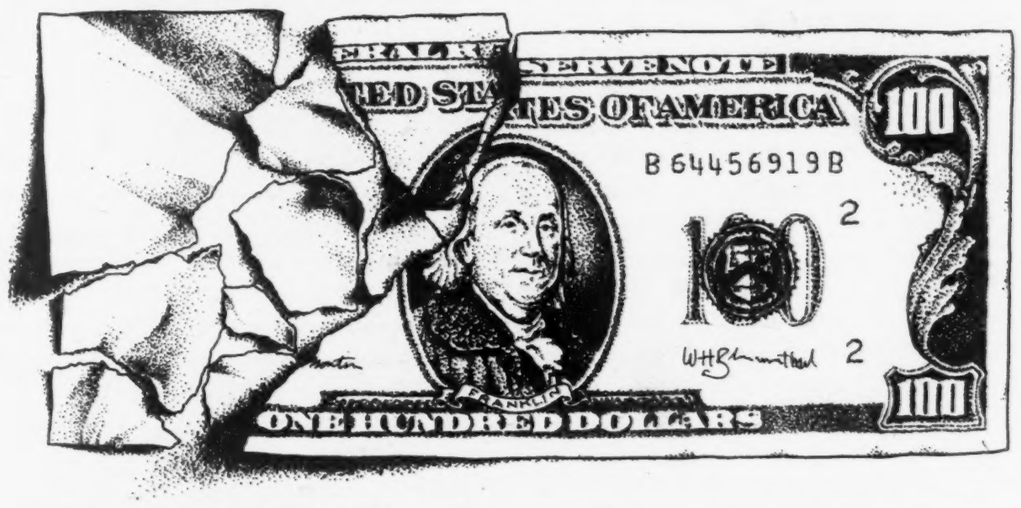

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THE NEWPORT BANCBASE™

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World Deposit Leaders
Tables Start on Page 53

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VOL. CLI NO. 147 Tuesday, July 29, 1986

TODAY

WORKING IN THE USA

FOREIGN BANKERS SPEAK OUT — Feature Section Starts on Page 13
The *American Banker* profiles 16 of the people who run the U.S.-based operations of foreign banks.

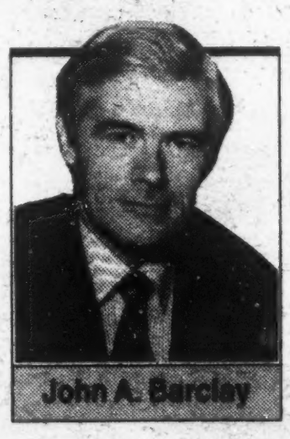
SPAEH FROM DRESDNER BANK: Winfried Spaeh, chief executive officer of Dresdner Bank's North American operations, must steer West Germany's second largest bank further into the U.S. market when deregulation, internationalization, and automation are blurring distinctions..... 14

Winfried Spaeh

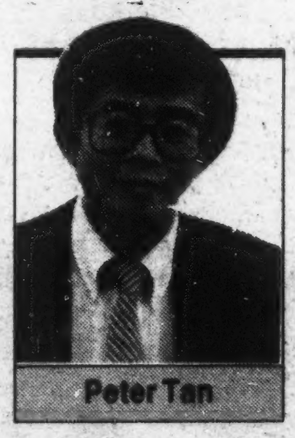
NOCHIMOWSKI FROM BANK LEUMI: David Nochimowski says U.S. banking may not be the "financial supermarket" it is in Israel, but it is more aggressive. The first vice president and manager at Bank Leumi's Chicago branch finds U.S. bankers are more "marketing oriented"..... 18

David Nochimowski

BARCLAY OF ROYAL BANK: "We're here to do business," says John A. Barclay, executive vice president of Royal Bank of Scotland's North American operations. He says the bank is to be reckoned with as a major player — a British player, not a Scottish player — in the international banking arena..... 25


John A. Barclay

TAN FROM DEVELOPMENT BANK: As head of the Los Angeles agency of Development Bank of Singapore, Peter Tan cultivates economic ties between East and West in anticipation of a West Coast resurgence in population — including Asians — and economic growth..... 40


Peter Tan

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Marketing Today..... 70

Japanese Banks Again Winners In Top 500 Race

By L. MICHAEL CACACE

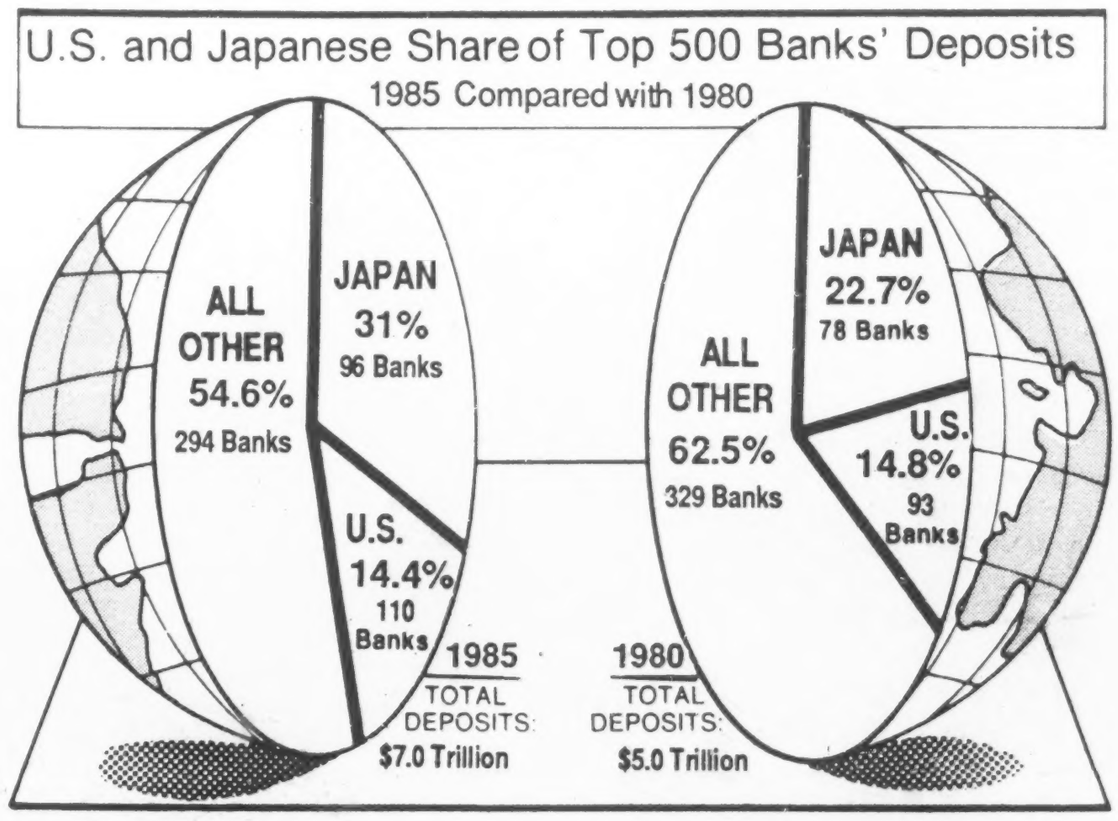
NEW YORK — For the second year in a row, Japanese banks substantially increased their domination of the world's top 500 banks, based on 1985 yearend deposits.

Top 500 Banks in Worldwide Deposits, Tables Start on Page 53

Last year's deposit growth was attributable to the appreciation of the yen against the dollar and the continued strength of domestic deposits — helped by a strong economy and the deregulation of the financial industry.

Japan is now the home of the world's top four deposit-taking institutions and seven of the top 10 world banks. In 1984, the top three banks in the world were Japanese, as were five of the top 10 banks. In 1980, just five years ago, no Japanese bank ranked among the top five in the world, and only one

World's Top 500: Page 69 ➳


U.S. and Japanese Share of Top 500 Banks' Deposits
1985 Compared with 1980
ALL OTHER 54.6% 294 Banks
JAPAN 31% 96 Banks
U.S. 14.4% 110 Banks
1985 TOTAL DEPOSITS: $7.0 Trillion
ALL OTHER 62.5% 329 Banks
JAPAN 22.7% 78 Banks
U.S. 14.8% 93 Banks
1980 TOTAL DEPOSITS: $5.0 Trillion

AN AMERICAN BANKER SPECIAL REPORT

Tax Changes Seen Boosting Individual Pension Products

By PHILIP T. SUDO

NEW YORK — Nothing has been finalized yet, but pension experts predict that tax reform will create significant marketing opportunities for firms offering retirement financial services.

Accountants, marketers, and consultants say that in the short term, the changes proposed in the Senate and House tax bills will boost demand by individuals for an array of retirement products, though in the long term, it could have adverse effects on the nation's private pension system overall.

"Tax reform requires everyone who's been saving toward retirement to ask, 'Am I saving in the right place?' " said Gary J. Strum, first vice president for pension services at E.F. Hutton & Co. "It couldn't happen at a better time for the brokerage industry, with the stock market high and interest rates low. It's a super marketing opportunity."

Stockbrokers, mutual funds, and insurers are perhaps in the best position to benefit from the expected pension- and retirement-related changes in the tax code. Given the regulatory limits on their product lines, banks and thrifts have fewer avenues to pursue, but will benefit nonetheless.

"If banks are thought of as the home of fully taxable products, then the removal of tax shelters and capital gains should benefit them, because there will be a more level playing field," said John Kneen, a pension consultant at

Retirement: Page 12 ➳

Outlook for Individual Investors Page 6
Tax Bill Update Page 6

Tax reform legislation promises to bring about major changes in consumer investment and borrowing patterns.

LOOKING FOR OPPORTUNITIES FROM TAX REFORM

It will also alter corporate investment decisions and radically restructure large areas of real estate finance. The result: new opportunities for financial services companies that can meet the changing needs of retail and commercial customers. This article is the first in a series of occasional reports on those new opportunities.

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